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TAGS: [PGOV](#) [ECON](#) [PREL](#) [ETRD](#) [EMIN](#) [EAID](#) [TBIO](#) [PE](#)
SUBJECT: PERU'S SECOND CITY LEANS LEFT BUT OPEN TO GLOBAL
ECONOMY

REF: A. LIMA 4451
[1](#)B. LIMA 4519

Classified By: Ambassador J. Curtis Struble, Reasons 1.4 (b) and (d)

SUMMARY

[1](#)1. (C) Despite their affiliation with radical nationalist groups, the recently-elected regional president and the mayor of Arequipa, Peru's second largest city, come across as having clear and sensible plans for economic progress in their region, including orderly decentralization. In recent meetings with Ambassador, both demonstrated a desire to work with the USG on further integrating Arequipa into the global economy and on poverty reduction. Both showed interest in post's development and outreach programs in the region, and showed a keen awareness that Arequipa's economy depends on exports for a quarter of its GDP -- of which half go to the U.S. End Summary.

AREQUIPA LEANS LEFT...AND BUSINESS CONCERNED

[1](#)2. (C) In the November 19 regional elections (ref A), Arequipa was the only major city or region to elect a candidate from far-left former presidential candidate Ollanta Humala's Nationalist Party. That said, incoming mayor Simon BALBUENA appears to have affiliated with Humala's group for reasons of convenience not conviction: Balbuena had formerly successfully run for office with a center-right group and his record as a district mayor is that of a pragmatic and effective administrator. The election of a controversial former mayor of Arequipa city, Juan Manuel GUILLEN, as president of the Arequipa region has prompted some expressions of concern by the business community. During an earlier stint as mayor of Arequipa, Guillen dramatically blocked the privatization of local electricity companies and allegedly demanded payoffs from telecom companies. He had told the press he would accept Humala's invitation to discuss

how to ensure the Garcia Administration enacts meaningful decentralization and government reform. Yet Guillen's strategy for engaging with the central government appears to be pragmatic.

LEADERS SHOW OPENNESS DESPITE LABELS

13. (C) In separate meetings with the Ambassador on November 29, both incoming leaders conveyed clear policy goals and a desire to work with the USG to improve local business and reduce poverty. Mayor-elect Balbuena told the Ambassador that he was "nationalist but not a communist," and that he wanted very much to attract private investment. Balbuena also told a reporter that although he was partly indebted to Humala's party for his victory, the reporter would have to ask Humala about the Nationalist Party's policy views as Balbuena actually had his own opinions. The Ambassador flagged for Balbuena Post's numerous programs in Arequipa, including: a new Peace Corps program that will initially focus on microenterprise, a partnership linking the Arequipa Chamber of Commerce with the American Chamber of Commerce in Lima, an expanding Fulbright program, the active Binational Center, and desire to extend to Arequipa USAID's successful poverty alleviation program (PRA), which helps teach isolated producers how to integrate themselves into larger markets. Guillen and Balbuena both indicated their support for these programs, and showed their awareness that Arequipa's economy depended on exports for a quarter of its GDP -- about half of which go to the U.S.

DECENTRALIZATION TAKING CENTER STAGE

14. (SBU) Guillen told the Ambassador that he would push the central government to enact reforms that would allow more direct local control (including tax authority) of revenue (including value-added tax, fuel producers' tax, mining canons, and company registries). He also said he supports decentralizing public investment, including the centralized watchdog National System of Public Investment (SNIP), so that regions can more quickly get the infrastructure they need. Guillen said the Garcia Administration's decentralization proposals (Ref B) were positive steps in the right direction, but needed to be complemented with clear regulations that would actually reduce the central government apparatus. He acknowledged that some regions were more ready than others to assume responsibilities from the central government, but said the less prepared regions could move forward at a slower pace. Confirming his reputation as a coalition-builder, Guillen met with the incoming presidents of five other regions on December 13 to try to carve out a consensus approach on the challenge of decentralization.

COMMENT

15. (C) Decentralization is shaping up to be both the Garcia Administration's biggest structural reform challenge, and an opportunity to address the exclusion of so many rural Peruvians from access to infrastructure and to trade. Mayor Balbuena and Regional President Guillen may prove to be much more motivated than their political labels would suggest; their interest in pursuing the decentralization challenge dovetails with the Embassy's increasing engagement in the Arequipa region. Maintaining a productive relationship with these leaders is probably the best way to ensure that USG programs and U.S. businesses will continue to have mutually beneficial relationships in Peru's southern hub.

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